

**Wexford County
Department of Public Works,
Village of Mesick
Wastewater Disposal System
(a fund of the County of Wexford, Michigan)**

**Financial Report
December 31, 2003**

Wexford County Department of Public Works, Village of Mesick Wastewater Disposal System

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Independent Auditor's Report

To the Board of Public Works
Wexford County
Cadillac, Michigan

We have audited the basic financial statements of Wexford County, Michigan as of December 31, 2003 and for the year then ended and have issued our report thereon dated May 6, 2004. Those basic financial statements are the responsibility of the management of Wexford County, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Wexford County, Michigan taken as a whole. The accompanying financial statements of the Wexford County Department of Public Works, Village of Mesick Wastewater Disposal System are presented for the purpose of additional analysis and are not a required part of Wexford County, Michigan's basic financial statements. The accompanying financial statements of the Wexford County Department of Public Works, Village of Mesick Wastewater Disposal System have been subjected to the auditing procedures applied in the audit of the County's basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the County's basic financial statements taken as a whole.

As discussed in Note 8, as of January 1, 2003, the County implemented the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

Plante & Moran, PLLC

May 6, 2004

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Wexford County Department of Public Works, Village of Mesick Wastewater Disposal System

Statement of Net Assets December 31, 2003

Assets

Current assets:

Cash and cash equivalents (Note 2)	\$ 51,311
Accounts receivable	<u>38,711</u>

Total current assets 90,022

Noncurrent assets - Capital assets - Net (Note 3) 9,550

Total assets 99,572

Liabilities - Current

Accounts payable	7,966
Accrued payroll and other liabilities	<u>1,252</u>

Total liabilities 9,218

Net Assets

Invested in capital assets - Net of related debt	9,550
Unrestricted	<u>80,804</u>

Total net assets \$ 90,354

Wexford County Department of Public Works, Village of Mesick Wastewater Disposal System

Statement of Revenue, Expenses, and Changes in Net Assets Budget and Actual Year Ended December 31, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenue			
Charges for services	\$ 61,100	\$ 49,782	\$ (11,318)
Other revenue	200	-	(200)
Total operating revenue	61,300	49,782	(11,518)
Operating Expenses			
Salaries and wages	19,279	19,278	1
Employee fringe benefits	11,467	11,176	291
Office supplies	925	823	102
Operating supplies	5,413	8,325	(2,912)
Insurance	2,027	2,027	-
Legal and professional fees	2,236	1,989	247
Computer services	520	258	262
Engineering	2,471	2,396	75
Utilities	4,920	3,659	1,261
Public water service	250	196	54
Laboratory services	5,550	5,348	202
Travel expenses	100	58	42
Administrative expenses	1,394	1,394	-
Publications	50	4	46
Repairs and maintenance	400	338	62
Capital asset activity:			
Capital outlay	3,100	-	3,100
Depreciation expense	4,651	2,877	1,774
Miscellaneous expense	350	158	192
Total operating expenses	65,103	60,304	4,799
Operating Loss	(3,803)	(10,522)	(6,719)
Nonoperating Income - Interest earnings	1,000	389	(611)
Change in Net Assets	(2,803)	(10,133)	(7,330)
Net Assets - January 1, 2003	100,487	100,487	-
Net Assets - December 31, 2003	<u>\$ 97,684</u>	<u>\$ 90,354</u>	<u>\$ (7,330)</u>

Wexford County Department of Public Works, Village of Mesick Wastewater Disposal System

Statement of Cash Flows Year Ended December 31, 2003

Cash Flows from Operating Activities

Receipts from customers	\$ 41,571
Payments to suppliers	(23,020)
Payments to employees	<u>(30,060)</u>

Net cash used in operating activities (11,509)

Cash Flows from Investing Activities - Interest received on investments 389

Net Decrease in Cash (11,120)

Cash - January 1, 2003 62,431

Cash - December 31, 2003 \$ 51,311

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (10,522)
Adjustments to reconcile operating loss to net cash from operating activities - Changes in assets and liabilities:	
Accounts receivable	(8,211)
Depreciation	2,877
Accounts payable	3,953
Accrued and other liabilities	<u>394</u>

Net cash used in operating activities \$ (11,509)

Wexford County Department of Public Works, Village of Mesick Wastewater Disposal System

**Notes to Financial Statements
December 31, 2003**

Note I - Summary of Significant Accounting Policies

The accounting policies of the Wexford County Department of Public Works, Village of Mesick Wastewater Disposal System (the "System") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The System is operated by Wexford County, Michigan (the "County") and is included in the County's basic financial statements as an Enterprise Fund. The following is a summary of the significant accounting policies:

Reporting Entity - The System operates and maintains the Village of Mesick Wastewater Disposal System. At present, the County has legal title to the sewer system, but the Village of Mesick has capitalized the cost of the project as an asset in its sewer fund. The purpose of capitalizing the System in the Village of Mesick's records is the provision in the lease contract that calls for the County to transfer ownership in the sewer system to the Village of Mesick upon maturity of the bonds.

The accompanying financial statements reflect only the operation and maintenance of the Village of Mesick Wastewater Disposal System Fund. The Debt Service Fund and the long-term debt are maintained by the County and reported in the County's basic financial statements.

Basis of Accounting - The accrual basis of accounting is used by the System. The System follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The System has elected not to follow private sector standards used after November 30, 1989.

Cash Equivalents - For the purpose of the statement of cash flows, the Proprietary Fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Investments - Investments are recorded fair value, based on quoted market prices.

Receivables - All trade receivables of the System are shown without an allowance for uncollectible accounts because delinquent amounts attach as a lien against the benefited property, which assures their eventual collection.

Inventories - Inventories held by the Village of Mesick Wastewater Disposal System Fund are not considered material and are not included in these financial statements.

Wexford County Department of Public Works, Village of Mesick Wastewater Disposal System

**Notes to Financial Statements
December 31, 2003**

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - All capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. The assets of the System consist of equipment items used to run the System. Depreciation on such capital assets is charged as an expense against operations on a straight-line basis.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

The deposits and investments of the System consist entirely of cash. These deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$51,311, which was fully covered by federal depository insurance. The insurance coverage pertains to all the deposits of the County; hence, the specific coverage pertaining to the System, if any, is not determinable.

Investments - Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are related as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the Board allows the County Treasurer to invest in all investments authorized by Public Act 20 of 1943, as amended.

The County of Wexford, Michigan's deposits and investments policies are in accordance with statutory authority.

Wexford County Department of Public Works, Village of Mesick Wastewater Disposal System

Notes to Financial Statements December 31, 2003

Note 3 - Capital Assets

The System's capital assets are composed of the following:

	Balance January 1, 2003	Additions	Balance December 31, 2003	Useful Life - Years
Capital assets being depreciated:				
Vehicles	\$ 21,921	\$ -	\$ 21,921	50
Machinery and equipment	<u>26,518</u>	<u>-</u>	<u>26,518</u>	5-10
Total capital assets being depreciated	48,439	-	48,439	
Accumulated depreciation:				
Vehicles	(20,690)	(177)	(20,867)	
Machinery and equipment	<u>(15,322)</u>	<u>(2,700)</u>	<u>(18,022)</u>	
Total accumulated depreciation	<u>(36,012)</u>	<u>(2,877)</u>	<u>(38,889)</u>	
Net capital assets being depreciated	<u>\$ 12,427</u>	<u>\$ (2,877)</u>	<u>\$ 9,550</u>	

Depreciation expense is calculated on the straight-line method over the estimated useful lives as indicated above.

Note 4 - Postemployment Benefits

The County provides health care benefits to all full-time employees upon retirement. The cost associated with this benefit is charged to the County's self-insurance fund when incurred. Currently, two retirees are eligible. The County includes pre-Medicare retirees and their dependents in its insured health care plan. The County charges the retirees a monthly fee to participate. During the year ended December 31, 2003, the County collected approximately \$1,300 from retirees.

Note 5 - Defined Benefit Pension Plan

The County's employees who operate the System are covered by a defined benefit pension plan. Complete information about the plan can be found in the County's basic financial statements. Annual pension expense allocated to the System amounted to approximately \$1,500 for the year ended December 31, 2003.

Wexford County Department of Public Works, Village of Mesick Wastewater Disposal System

**Notes to Financial Statements
December 31, 2003**

Note 6 - Risk Management

The System is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The County has purchased commercial insurance for workers' compensation and medical benefit claims, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to general liability.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Michigan Municipal Risk Management Authority that the Michigan Municipal Risk Management Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.

Detailed information concerning estimates of liability for claims is provided in the County's basic financial statements.

Note 7 - Budget

The State's Budget Act does not require a formal budget to be adopted for Enterprise Funds. However, because of the contractual agreement between the communities, an annual budget is adopted and is included in these financial statements for management control purposes.

Note 8 - Accounting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The County has applied the provisions of this statement in the accompanying financial statements (including notes to the financial statements). The County has elected to implement the general provisions of the statement. There were no significant changes to the System's financial statements.